

# CITY OF NEWPORT NEWS

## OFFICE OF THE CITY MANAGER

March 27, 2012

**TO:** The Honorable City Council  
**FROM:** City Manager  
**SUBJECT:** Recommended FY 2013 Operating Budget

I am transmitting for your consideration, my recommended operating budget for the fiscal year that begins July 1, 2012 and ends June 30, 2013. We are all aware of the fiscal and budgetary trends of the last several years that impact this year's recommended City operating budget. It comes as no surprise that the development of this budget has been very difficult. To achieve balance and maintain the services that I believe City Council and our citizens expect, it was necessary to recommend some tax rate increases and make some additional expenditure reductions that will not please everyone. However, this budget sustains most City operations at close to current service levels, supports progress in strategic priorities, and does so with no increase in the real estate tax rate.

Before we held our first departmental budget hearing, we knew that we faced several structural operating budget challenges that would not be easily overcome. On the revenue side, real estate taxes will go down almost \$7 million and State funding will go down yet again, although in a smaller amount than in the past several years. On the expenditure side, we knew we must meet our employee pension reform contribution commitments, cover the cost of health care increases, support our schools, and deal with higher fuel prices. Stated simply, compared to the current budget year, and holding everything else constant, we started with a hole of \$13 million in the General Fund.

In terms of major non-General Fund, user fee-based activities, it was necessary to recommend fee increases. Many of these changes are driven by new Federal and State environmental regulations, along with the issue of declining water demand. On a positive note, for many residential property owners, the annual decline in real estate tax payments will exceed the cumulative increase of all recommended proposed taxes and fees.

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Continued pressure from both the revenue and expenditure sides set the environment for the development of the Recommended Budget. The two largest sources of revenue, real estate property taxes and transfers from the Commonwealth of Virginia, will be down further in FY 2013. Despite other local taxes showing signs of stabilization or moderate growth, there will be a lower overall funding level to support our operations.

From an expenditure perspective, obvious and one-time expenditure cuts have already been taken. Over the past four years, we have applied reductions to materials, supplies, and training, and harvested personnel savings through increased attrition credits and elimination of positions. At this point the budget is in delicate balance and further reductions will have significant impact on our ability to continue to deliver the current scope of City services to our citizens.

As stressful as this prolonged economic environment continues to be, I continue to have confidence in this organization's commitment and capacity to deal with financial challenges. In this context, we set out to build a recommended operating budget that achieved certain limited objectives within certain broad parameters. On the revenue side, we have prepared a budget with a minimum of rate and fee increases. On the expenditure side, our priorities are to restore the prior funding reductions to local education funding as much as possible, meet our long-term commitments in terms of debt service and pension contributions, begin to align our operating budget with the City Council-endorsed Strategic 8 Priorities, and seek to fund a modest general salary increase for our excellent work force. I believe my recommended budget is consistent with these priorities.

## OVERVIEW

I am submitting to you a budget that maintains the basic services that citizens expect of the City of Newport News. There are limited new initiatives, funding start-up costs for two larger projects that will become operational in the upcoming fiscal year. Other moderate increases were made to limit service reductions or address aspects of our Strategic 8 Priorities. The difficult aspect of balancing this budget was to provide for the necessary services that we have, while acknowledging the need to plan for the future and to be ready to move the City to the next level when the economic recovery is more robust. As a City, we must remain

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invested in our Strategic 8 Priorities and ensure that they are not easy casualties to the shrinking budget, but rather are maintained at an affordable level.

My total recommended FY 2013 budget is \$744,189,609, which is a decrease of (\$4,470,008) or (0.6%) lower than the current fiscal year. This total budget amount includes the General Fund, Schools, Public Utilities, and all Special Revenue and Trust Funds. One unique driver in the General Fund decrease is the State's assuming responsibility for the mandated Human Services Day Care program, and thereby eliminating the State reimbursement and a majority of the local costs. Other major operating funds that will be lower in the upcoming fiscal year are Schools and Public Utilities (Waterworks), as well as our Federal funds from the Community Development Block Grant.

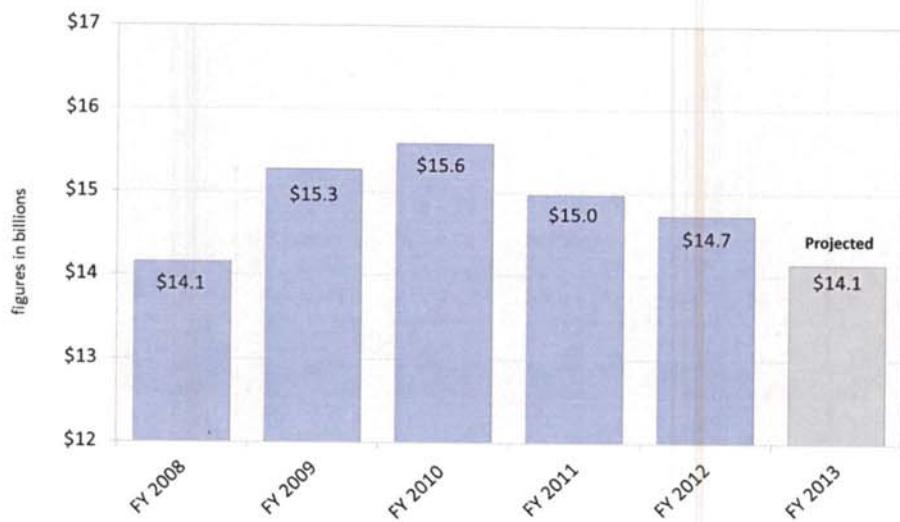
Of this total budget amount, the FY 2013 Recommended General Fund Operating Budget totals \$414,200,000, which is a decrease of (\$380,000) or (0.1%) lower than the adopted FY 2012 Operating Budget. Yet again, our two largest revenue sources Real Estate Taxes and State reimbursements continue to decline. To offset revenue loss, adjustments in locally controlled rates of personal property, meals, and cigarette taxes are being proposed. These particular rates are recommended for increase because they are a combination of changes that will affect all citizens who own a vehicle (and not just property owners), and specific taxes that are based on a personal choice (meals and cigarette taxes). In addition, I am recommending that the cap amount of tax paid by industry for the consumption of electricity be changed. This rate has not been adjusted since 1984 and is currently at \$80 as the maximum level of tax paid monthly. Most surrounding localities either have no cap or a high maximum tax level. Based on monthly kilowatt usage, we anticipate that eliminating this cap will produce an additional \$750,000 in General Fund revenue.

Real estate property assessments, which are based on market values established for the 12-month period of October 1, 2010 to September 30, 2011, are expected to decrease for the third consecutive fiscal year. The final estimate on the assessment decrease was more significant than initially projected. The chart below illustrates the dramatic change in values, with the anticipated Real Estate Levy on July 1, 2012 to approximate that of FY 2008. In other words, we will be generally collecting the same amount of Real Estate revenue as we did five years

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ago, while at the same time paying the same tax rate of \$1.10 per \$100 of assessed value.

**Recent History of Real Estate Assessment Values (Adopted Budget)**  
**FY 2008 - 2013**



An average assessment decrease of approximately (4.23%) will be seen, with most residential property owners paying lower real estate taxes in FY 2013. To put this in perspective, this percentage decline in assessments equates to a \$7.2 million or (4.6%) loss from the City's single largest revenue source.

This decline in real estate tax revenue reinforces the decision made last year to shift our tax abatement program to a tax deferral for our elderly and disabled citizens. City Council will recall that prior to this change, the cost of the tax abatement program had grown to five times its size from 20 years ago. In FY 2012, tax relief represents close to a \$3 million loss in revenue to the City. This amount does not include the impact of the loss of \$475,000 in additional real estate revenue from the recently mandated tax relief for Disabled Veterans that took effect on July 1, 2011. Without a change to the tax abatement program, and with forecasts predicting that the elderly will make up nearly 40 percent of the Newport News population by the year 2030, the City would lose substantial and increasing amounts of Real Estate Tax revenue over time. To cover the gap in revenue created by the abatement program, the City would need to raise the real estate tax rate for all property owners, which is not an option that is equitable to the City's residents as a whole. It must be recognized, that the elderly citizens, both taxpaying and those in the

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abatement/deferral program, use City services for which there must be a source of funds. While it was difficult, the decision to change to a tax deferral program was responsible, fair, and forward-looking. As a result of this action, our loss of revenue from the tax deferral program is anticipated to decline from \$2.8 million to \$2.2 million in FY 2013. Over time, this revenue loss will be completely eliminated, while the substantial benefit through deferral is maintained for most impacted individuals.

As you know, the State's payment to localities is anticipated to decline for the fourth consecutive year. While not of the scale previously experienced, the Governor's proposed 2013-2014 Biennial Budget did recommend some minor restoration of State funding to select activities, while at the same time cutting others. Shortly before this budget submission, the State General Assembly concluded its regular session without an adopted budget, causing significant uncertainty as to the impact of the State funding to localities in the near future. Most distressing of all is the late-breaking adoption of a conferee bill that requires municipal employees enrolled in the Virginia Retirement System (VRS) to pay a 5% contribution toward retirement and stipulates that those same employees receive a salary adjustment of 5% to offset the cost. This new State mandate comes at a time when a majority of localities are nearing completion with their budget processes. In addition, it does not recognize the innate inequity in employee salaries that it would create in localities such as ours that maintain both a local retirement system, as well as participation in VRS. Depending on what action the General Assembly takes in this matter in coming days, it may be necessary to adjust the budget to reflect this new mandate. I will keep you informed during your deliberation process of any changes in the revenue forecast that could affect the budget.

Other General Fund revenues for FY 2013 have been estimated based on a continued slow economic recovery. Our locally generated taxes of Machinery and Tools and Business, Professional, Occupational Licenses (BPOL) are showing moderate growth, with increases of \$500,000 and \$1 million over the current fiscal year, respectively. Sales Tax revenue remains on target for collections in the current year. Forecasting limited new retail development within the City for the full year in FY 2013, an additional \$400,000 in sales tax revenue, or 2% growth, has been added. Although these areas are showing consistently moderate increases in the current fiscal year, they will not close the entire gap resulting from Real Estate Tax loss.

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The chart below shows the loss of the Real Estate Tax revenue and new revenue generated by the proposed rate increases.

**FY 2013 Proposed Rate and Fee Changes**

Revenue	(in Millions)		Difference	
	FY 2012 Estimate	FY 2013 Estimate	Amount	Percent
Real Estate Tax	\$158.7	\$151.4	(\$7.2)	(4.6%)
Meals Tax (1% rate increase)	17.6	20.3	2.7	15.4%
Cigarette Tax (10¢ rate increase)	4.6	5.2	0.6	13.3%
Personal Property Tax (25¢ rate increase)	40.5	42.9	2.4	5.9%
<i>Total</i>	\$221.4	\$219.8	(\$1.5)	(0.7%)

**EXPENDITURE CHANGES**

During the budget development for the current fiscal year, it was clear that we would be faced with even more critical fiscal challenges in FY 2013. In September 2011, after identifying the known expenditure drivers for the upcoming budget, I instructed my Management Team to review all of their departmental operations and provide me with intelligent, practical reductions that would focus on core functions, increase efficiency by reducing or eliminating non-essential operations, and reorganize staffing to accommodate the highest priority of those core services. The target reduction for all departments was initially six (6) percent. To achieve this magnitude of cuts without a revenue increase from taxes and fees, there would have had to be sustained reductions and program eliminations, the loss of a substantial number of City positions, and would have pushed unavoidable expenses into future years. Instead, with careful consideration of each line item expense, nearly every department sustained some level of reductions in operations. This was a difficult painful effort. As you will recall, operational expenses have been reduced in the General Fund from \$433 million in FY 2009 to the proposed level of \$414 million in FY 2013, all by gradually and marginally reducing the level of services over the years without changing the quality of that same service delivery. In some cases, prior fiscal year reductions proved to be all that could be achieved without threatening core missions or the operation of facilities. Reductions and other changes are summarized in the Recommended Budget document under the blue tab labeled *Expenditures*.

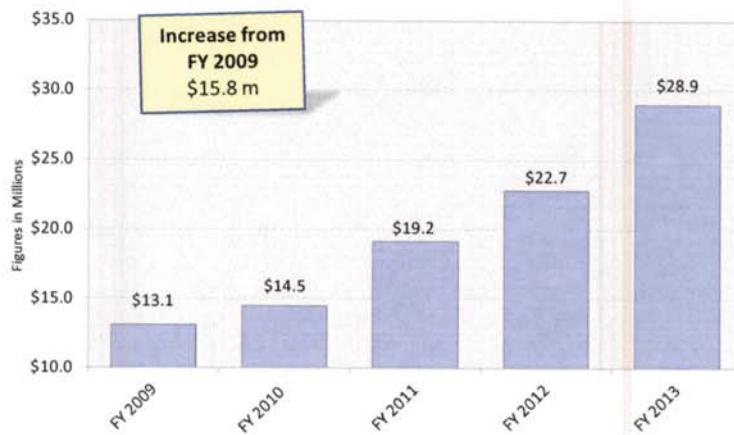
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There are six general areas where this recommended budget reflects increased spending or funding of a new initiative. These areas include pension contributions, health care premiums, fuel costs, the City's contribution to the School Division, full-year operation of the Denbigh Community Center, partial-year operation of the 311 Customer Contact Center, and an employee salary adjustment.

Pension Contributions

We are firmly committed to an eight-year obligation to incrementally increase the City's contribution to the Annual Required Contribution (ARC) to the Pension Fund. FY 2013 will be the fourth year in this process. This is a fundamental expense of our operating budget and the recommended budget includes a substantial increase in our annual and sustainable contribution to the pension system. I recommend that our annual contribution increase from \$22.7 million to \$28.9 million City-wide, representing \$6.2 million in additional funding. This recommended amount is consistent with our plan to completely restore the actuarial position of our pension fund over time. The recommended contribution brings the ARC up to 65% from 59% and represents a cost increase to the annual budget that is almost equal to the amount of revenue loss from Real Estate Taxes. The Schools Division is a separate but important participant in this pension funding process and has budgeted for the same percentage increase in the Superintendent's recommended budget.

History of City Pension Contributions  
FY 2009 - 2013



As a member of VRS, we fully fund the annual contribution for those employees hired or rehired after March 1, 2010 or who elected to shift

from the City's pension system. As more of our work force participates in VRS, so grows our annual contribution. This fact, plus the change in the VRS actuarial assumptions for the upcoming fiscal year, increased the General Fund payment from \$1.5 million to \$2.8 million. In addition, we are required to participate in a Line of Duty Act program that provides benefits to first responders who die or become disabled in the line of duty. This cost has increased from \$221,727 in FY 2012 to \$450,000 in FY 2013.

As a point of reference, in FY 2013, a significant change occurred in the representation of retirement costs for City employees in the budget. The annual pension cost is a fundamental expense, whether through the City's independent pension program or through participation in VRS. For that reason, all costs associated with retirement have been moved from the individual departments of the General Fund and consolidated in the Nondepartmental cost center. (Retirement expense funding for all Special Revenue and Trust Funds remains in those Funds). This shift of expense allows for increased transparency as to the total cost of retirement expenses, an easier year-to-year comparison moving forward and better fiscal control.

#### Health Care Costs

Health care costs continue to rise, with an insurance increase anticipated in FY 2013 of 5% beginning in January. The annual increase is generally based on the prior-year claims and services provided to our employees. In order to maintain the ratio of 75% City/25% employee contribution toward the total premium cost, there is an additional funding of \$1.5 million for this item City-wide for the upcoming fiscal year. Without the benefit of eliminated positions contained in this recommended budget, the amount would have been higher. This continues to be an important benefit for our employees, as other employers have targeted this benefit as cost savings by reducing their contribution to this cost. For the City, it remains a strong recruiting tool and acts as additional leverage for soliciting qualified candidates when all other aspects of employment are equalized between the localities.

Increases in health insurance premiums have become an annual budget challenge for the City. Careful plan management and lower experience costs are the keys to keeping the premium increase responsibility low. If we continue to operate within the same health insurance decision-making context, we can expect to experience premium increases that will absorb a larger share of our revenue pool. For this reason, I have instructed the Director of Finance to form an employee committee to review our current

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health care plan and possibly make recommendations for changes. This Health Committee will meet with our health care plan advisor to review available options and opportunities. As our health care contract is based on a calendar year, employees, as well as the City, will be faced with continued increases if we do not attempt to define an appropriate level of benefit.

Increased Fuel Prices

Rising fuel costs make it difficult to determine a year-long average of per-gallon costs. Vehicle fuel is an important part of our operations, supporting public safety functions, public works activities, and human services programs, among others. Our annual consumption has been nearly stable at 1.2 million gallons. With prices trending upward, we have raised our price-per-gallon estimate from \$3.45 to \$3.55, representing a 3% hike in costs. In the General Fund, this equates to a \$148,612 increase. One prediction is that fuel prices will continue to increase until mid-May 2012 and begin to decrease slowly afterwards. If fuel prices continue to trend upward, we may need to change the rate forecast for vehicle fuel closer to the final budget reconciliation for FY 2013.

Contribution to Schools

Local support for public education is a critical component in the budget. I am recommending a contribution of \$113,400,000, which is \$1.2 million, or 1.0% higher than the current fiscal year. The FY 2013 contribution includes \$12.1 million in City funding for Schools debt service.

It should be noted that the City has increased funding to Newport News Public Schools for the past two fiscal years, signaling our commitment to public education. In a time when the State has made massive reductions in its support to public education (from \$194.8 million in FY 2009 to a proposed \$158.6 million in FY 2013), Newport News Public Schools too has been faced with higher pension contributions. This additional contribution from the City of \$1.2 million will help to lessen the impact of the other very real pressures on the Schools budget.

Employee Compensation and Benefits

The recommended operating budget includes funding for a general across-the-board salary increase for City employees of 1.5%, effective January 1, 2013. The cost of this salary adjustment is \$1 million. While the percentage increase is not at the level that I had initially planned or hoped

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for, it does allow for a small salary increase to coincide with the additional expense employees will see with higher health insurance premiums. In other salary issues, the City contracted with a consultant to conduct a compensation and classification study. The broad goal of the study is to improve internal equity relative to compensation and to ensure that the City is competitive in the marketplace for attracting and retaining qualified employees. The economic challenge, of course, is to find affordable levels of compensation adjustments as a result of the study. Full implementation of the findings of the study will require a multi-year approach.

Even in a difficult financial environment, we must be smart in our policies to recruit and retain a good work force. From a labor market perspective, most large, regional, private employers are planning for raises during the upcoming fiscal year.

Full-Year Funding: New Initiatives

There are two major initiatives that will come to fruition during FY 2013: the Denbigh Community Center and the 311 Customer Contact Center.

The Denbigh Community Center is a \$15 million capital project in the northern district of the City that represents the culmination of many years of planning and implementation. The 50,000 square-foot building includes classrooms, two full-size gymnasiums, and a teen center and will serve as our flagship development in support of our Upper Warwick Boulevard Corridor Strategic Priority. Initial funding of \$139,594 for four positions was included in the current year budget to allow for appropriately staffing, outfitting and equipping this facility. Funding of \$701,661 has been included in the Parks, Recreation and Tourism budget for a full year of operations, including three (3) new staff positions. This amount is inclusive of \$139,594 in the FY 2012 budget. When accounting for costs budgeted in the Departments of Public Works and Information Technology, the full cost of operations at the Denbigh Community Center is \$720,829 for FY 2013.

The operation of the 311 Customer Contact Center, anticipated to begin January 2013, is the second new initiative that will be funded in the upcoming fiscal year. Directly supporting our Customer Service Strategic Priority, the 311 operation will be housed in available space in the Peninsula Health District building. This location is optimal for several reasons. Situated in the center of the City, the space is remote from our current 911 Dispatch Center and can serve as an alternative dispatch site,

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should the need arise. This building has its own generator and dedicated pump station and will be able to operate during times of emergency, eventually becoming our Emergency Information Center during crisis events. This new function will change the way that we communicate with our customers as a City, with the 311 Contact Center providing a "one-stop-shop" to answer questions and receive citizen concerns and issues. The amount of \$35,519 was included in the FY 2012 budget for partial-year funding of one position. The Recommended Budget includes \$332,508 for this operation, which represents an increase of \$296,989 over FY 2012. This includes funding for six full-time positions and part-time staff (\$304,582). Three positions will be shifted from the Information Technology, Codes Compliance, and Engineering Departments. Vacant positions in these departments were allocated to the 311 Customer Contact Center, as they represent a large portion of daily calls to the City in some manner. The remaining funds will be used for overall operating expenses such as Contractual Services, Telecommunications, and Supplies (\$27,926).

To be able to fund the six expansion areas, the FY 2013 recommended budget reflects reductions in most other operational expenses, as well as the recommended rate and fee increases. In other words, those reductions are net of these necessary increases. There are few enhancements based on contractual circumstances or specific needs. As expected, in response to falling revenues, it was necessary to reduce service levels in some areas, as detailed below.

### SERVICE IMPACTS

#### Reduction in Force, Redirected Staffing

I am recommending a net reduction of 11 positions in the General Fund for FY 2013, with the elimination of two other vacant and filled positions City-wide. We have cut a net total of 158 positions City-wide over the past four years, with this reduction representing a 4.5% decrease of our work force. One position each is being eliminated from the Historical Services Fund and the Vehicle and Equipment Services Fund. Two positions are moving from the General Fund to the Stormwater and Wastewater Funds, as their duties primarily support those operations.

The net number of position reductions identified above does not represent the full number of reduced positions over the past years. Some of the

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positions that have been eliminated have been repurposed to support efforts to improve efficiencies and/or to enhance our efforts and citizen responsiveness in critical areas. As an example, for FY 2012, Public Safety allotments increased with the addition of 12 firefighter positions to staff the new Brentwood Fire Station. Beyond Public Safety, the very limited number of position additions have come in highly critical (in some cases mandated) service areas or to support progress on our Strategic Initiatives.

My approach over past budget preparations has been to work to minimize layoffs of active employees. The exception to this practice is where the operational cost of a function is clearly no longer justifiable. It is only in those instances where I have recommended position eliminations. After four years of cutting allocations, in some cases employees that I know, it does not make those choices any easier. The number of actual recommended reduction-in-force positions is 11 full-time employees and 10 vacant positions, and two positions transferred to other operating funds. The chart below details the position changes for FY 2013.

**FY 2013 General Fund Position Changes**

<u>Position Type</u>	<u>Filled</u>	<u>Vacant/ Transfer</u>	<u>New</u>	<u>Net Change</u>
Front Line	0	2	2	0
Management	1	2	2	1
Professional	7	4	7	4
Support/Clerical	3	4	1	6
<b>Total</b>	<b>11</b>	<b>12</b>	<b>12</b>	<b>11</b>

Due to the partial hiring freeze that we have had in effect since the fall of 2009, we have been able to eliminate many resulting vacant positions. The functions of these vacancies are no less important, and those duties have been added to the workload of remaining positions. The Attrition Credit that was first instituted in FY 2009 at \$1 million is now \$6.2 million for FY 2013. (An Attrition Credit reduces a department's budget for salaries and fringe benefits based on an anticipated lag time between an employee termination and when a new employee is hired.) This budget can only be balanced due to these ongoing savings. As a reminder, the City has an

established Reduction-In-Force (RIF) policy that allows for any employee who would lose their current position due to a reduction in force to apply for, and if qualified, be placed in vacant positions over other applicants. I hope that most of the individuals affected by the RIF have the opportunity to find different employment with the City.

In preparing this budget, we continued to place great emphasis on public safety. We have more police on the street and more firefighter paramedics than at any point in our history. I am not recommending the elimination of any filled uniformed public safety positions. I am recommending the creation of one new system administrator position that will work with the Police and Information Technology Departments and is absolutely critical to maintaining our 911 communications system and 311 Customer Contact Center technology.

#### Service Reductions

Drastic service cuts have been avoided in this recommended budget by reducing positions, consolidating efforts where possible, leveraging technology, and increasing some fees and taxes. As a result of these efforts, there will be a minimum impact on service delivery to our citizens. Newport News continues to have an exceptional range of services, which is an important quality-of-life consideration for retaining current residents and attracting new businesses. However, there are some areas where reductions in service levels were necessary.

In the Libraries and Information Services Department, I must once again recommend eliminating the Bookmobile Service. It is time. Since the beginning of the fiscal year, the Bookmobile vehicle has experienced major mechanical failures and has been patched together to remain operational. The amount of time that it has been off the road has impacted service delivery to its patrons. The initial estimate last year was that the vehicle would function for two more years. That lifespan has been cut in half with the costly repairs that we are now facing. Elimination of this Library function will result in the reduction of one (1) filled Information Services Specialist position and part-time funding, with a savings of \$100,000.

The amount of funding for the annual replacement of vehicles, information technology equipment and infrastructure continues at a much-reduced level in this operating budget recommendation. In the case of our street maintenance program, an additional \$578,000 reduction in paving funds is included in FY 2013. While temporarily supported by

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Federal stimulus funds, we cannot continue to underfund this and other aspects of our operations in future fiscal years. We will have to look to new revenue beyond the upcoming fiscal year if we are to avoid even more costly investment in our infrastructure. Though I believe that we can withstand this continued level of reduced funding for one more fiscal year, it will be one of the first areas that I would choose to restore if our revenue estimates improve. It is critical that we plan to take major steps to restore funding over time in these areas.

Parks, Recreation and Tourism functions are other areas impacted by this recommended budget. I have recommended that Special Event Funding be reduced by \$13,250. This reduction will not eliminate any current events, functions, or offerings. Rather, it requires the use of the Special Events fund balance reserves or private donations to fully fund the amount needed to maintain these annual events that have become greatly anticipated and that enhance the quality of life in the City. In the Historical Services Fund, one (1) filled Historic Site Curator (\$58,416) position has been recommended for elimination. By this action, tours of the Newsome House will be by appointment or event only. This decision was based on extremely low visitation experienced by the facility.

Innovations

I am recommending some exciting changes in the Fire Department. Through two major shared services efforts with the City of Hampton that will begin in the upcoming year, there is potential for substantial savings and improved citizen responsiveness for both localities.

First is the consolidation of Logistic Functions to combine the warehouse functions and personnel of both cities into one site to create efficiencies, reduce personnel, and create savings through bulk purchases. Savings here represents the elimination of one (1) Firefighter position (\$58,280) in a future fiscal year and anticipated bulk purchase savings in uniforms, supplies, and equipment of (\$23,000) in FY 2013. Second is the Automatic Mutual Aid between the two Fire Departments along the eight-mile common border of Hampton and Newport News to allow the closest available unit (fire or medic) response for calls for service by the public. Three stations in both cities mirror each other along the City line. Once implemented, the mutual aid response time will be reduced for both cities and, in time, could result in the elimination through attrition of twelve (12) Firefighter positions for an anticipated savings of up to \$700,000. For FY 2013, all positions are retained for both of these programs to allow for

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the phasing in of operations. Combined, both initiatives could eventually generate savings of \$782,000. A full report to City Council on the status of these activities will be presented shortly.

As a companion piece for this mutual aid function to work with seamless fluidity to the citizens, it is recommended that both Hampton and Newport News have uniform Ambulance Fees. That way both localities will receive like payments for the same service, and the citizen will not be charged differing rates. To institute this, I am recommending the following changes for FY 2013:

<b>AMBULANCE FEES</b>	<b><u>FY 2012</u></b>	<b><u>FY 2013</u></b>
Basic Life Support	\$425	\$500
Advance Life Support - Level 1	\$525	\$600
Advance Life Support - Level 2	\$ 0	\$750
Patient Transport Mileage Fee - per statute mile	\$8.25	\$11.00
Emergency Medical Service -	\$0.00 per patient	\$125.00 per patient
Non-Transport Assessment Fee	assessment	assessment

These rates have been researched and fall within the usual, customary and regular charges reimbursed by most insurance companies. In addition, I am recommending that we only solicit reimbursement for these fees from insurance providers and do not pursue any residual unfunded payments from the individual user. If successfully implemented, the out-of-pocket expense to citizens will not increase.

Additionally, other outstanding efficiencies have been recommended. The Fire Department will eliminate one (1) Payroll Technician position and one (1) Administrative Assistant position, both vacant positions, and create one Staff Technician position that will provide greater functions and necessary activities for the department, with an overall savings of \$48,159. In the area of fire inspections, there has been a pilot project under way using uniformed personnel as Fire Inspection Specialists to provide inspections of City businesses. By eliminating one (1) vacant Assistant Fire Marshall II position (a savings of \$74,609) and replacing that position with an annual pay supplement of \$1,500 for twelve (12) current positions (a cost of \$18,000) to be certified as Fire Inspection Specialist, the City will save a net \$56,609.

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The Juvenile Services Department is another area of strong innovation. The Department continues to reorganize positions to operate more efficiently and effectively. Part of the reorganization for FY 2013 focuses on a new Medical Service Contract for Secure Detention for a cost of \$386,580. This new contract will enhance the services provided to the juveniles in the facility and reduce the liability to the City. The funding for this contract would come from the elimination of two (2) filled Registered Nurse positions (\$144,644), and one (1) filled Licensed Practical Nurse position (\$51,499), and the elimination of the current Medical Service Contract (\$47,875) that is found in the Nondepartmental-Contingencies division of the General Fund. While I am reluctant to reduce any filled City position, it has been determined that most affected employees will have the opportunity to work for the contractor if they so desire. Reductions in Medical and Lab supplies, Prescriptions, Professional Health Services, and other healthcare-related items (\$114,613) complete the reductions and offset the cost of the new contract. Other departmental reductions include one (1) Laundry Worker position (\$31,738), one (1) Storekeeper position (\$44,739), one (1) Senior Custodian position (\$33,729), Part-time funding (\$169,845), and other operating expenses (\$228,863). These reductions will also offset funding that has been added to the Juvenile Services budget for a Human Resource Manager position.

With the operation of the South Morrison facility functioning for a year now, we are looking for other opportunities to invest in expanding similar City functions into this central location. In FY 2013, \$75,000 is budgeted for the South Morrison School Work Force Development Center. This will provide funding for a SNAP location, after-school programming for homeless children (those who are identified as living in hotels and other temporary housing), a small library outreach center, as well as an additional site for general work force development programs.

Additionally, after careful consideration, I am recommending that a new position be added to enhance the City's "Green" initiatives. The Public Works Department has created a Sustainability Division, adding one new position (\$46,606) and reclassifying another, which will improve energy efficiencies and enhance environmental causes and address our Sustainability Strategic Priority.

## OTHER OPERATING AREAS

### Debt Service and Cash Capital

General Fund support for the City's Debt Service will be \$34,630,325 in FY 2013. This figure includes payments for outstanding General Obligation Debt, Airport Debt Service of \$544,204, and a full-year expense for the \$42 million of bonds issued in July 2011. It also reflects the net reduction of \$1.2 million of debt service generated from the bond refunding that took place in early March 2012. The Recommended Budget assumes a General Obligation bond issuance during FY 2013, and includes one additional interest payment in the upcoming fiscal year. When all these elements are combined, this amount is only \$287,083 or 0.8% more than the current fiscal year. Even with a capital project of the magnitude of the Denbigh Community Center (at \$15 million), through prudent cash flow management of bond proceeds we expect to be able to stretch our bond cash for more than a year from the issue date.

Cash Capital, a component of the City's adopted Capital Improvement Plan, is budgeted at \$2,894,246. It is the intention to use funds from the Special Projects Fund to fully fund the total cash requirement of \$6,340,000 to satisfy our Capital Financing and Debt Management Policies requirement of 20% cash capital funding. If all Cash Capital and Special Reserve Funds are used for these types of projects, a total of \$8.9 million will be funded, reaching a 22.7% level of cash capital funding. Cash Capital allows for current operating funds to be used to fund less expensive and more regular capital investments (e.g., roof and HVAC replacements, and capital equipment) to decrease reliance on bond cash for shorter term capital projects.

### Community Support and Regional Organizations

My recommended funding for the thirty-two (32) Community Support agencies that are supported by the City is \$2,311,252. The amount for the Regional Organizations that the City is a member or participant of is \$6,193,624. The FY 2013 combined Community Support and Regional Organizations amount is proposed at \$8,504,876. This represents an increase in funding of \$640,821, or 8.2% from FY 2012.

For FY 2013, the approach in formulating the Community Support and Regional Organizations recommendation was to identify opportunities to reduce the total level of grant awards while maintaining level funding for organizations that provide services to our citizens. For a majority of the Community Support agencies, annual reductions have been imposed on

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them since FY 2010. Many of these organizations augment City functions, and by reducing them any further, we would stand the chance of losing services that we depend upon that are provided at a reduced cost.

For all Community Support agencies, funding will be equal to the FY 2012 level, with one exception. As per the recently adopted license agreement between the City and the Office of Human Affairs (OHA), OHA will begin paying for utility costs for space occupied in City facilities. The estimated cost for annual utilities is \$40,000 and has been included as part of the OHA Community Support Grant. Revenue from OHA to offset this cost for the utilities payment is reflected in General Fund revenue.

Regional Organizational Agencies are those where most of the City's contributions are based on a contractual agreement on a per capita support level. The Hampton Roads Planning District Commission, recognizing the fiscal stress that its member localities are under, submitted a FY 2013 request that was \$6,923 or 3.5% lower than the current year. No other Regional Agencies offered reductions voluntarily. I reduced the following three agencies by 5% each for a combined savings of \$23,381: Hampton Roads Partnership, Hampton Roads Military and Federal Facilities Alliance, and the Hampton Roads Economic Development Alliance. Funding in the amount of \$27,000 for the Hampton Roads Sports Commission has been eliminated. Payment for part of the Regional Air Service Enhancement Fund (RAISE) in the amount of \$72,288 has been shifted from the General Fund to the Economic Development Authority (EDA). Base support for Thomas Nelson Community College has been reduced by 2.5% or \$5,524 in the upcoming fiscal year.

Funding for Hampton Roads Transit (HRT) has been difficult to determine. At the outset of each year, HRT estimates its costs for the year and generates a budget for each of the participating localities. At year-end closing, HRT provides either a credit or an additional charge to each locality on a prorated basis based on the total cost of operations for the Agency as compared to the amount of the locality funding during the fiscal year. HRT requested \$4,981,812 from the City in FY 2012. This represented an increase of \$343,370 over FY 2011. However, HRT notified the City that it had a \$367,000 credit available to use (pertaining to 2010). In response to this, the City funded HRT at the FY 2011 level of \$4,504,410 in cash and used the available credit to fund the FY 2012 HRT request. The credit was used to keep the funding level flat.

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Recently, HRT notified the City of a \$401,207 additional charge pertaining to FY 2011. These monies will need to be paid either in the fourth quarter of FY 2012, or throughout FY 2013. HRT has also requested an FY 2013 budget of \$5,450,640. This represents an increase of \$468,828 or 9.4% over the FY 2012 amount requested.

An efficiency study was conducted by HRT in FY 2011 resulting in some recent route changes which began in January of 2012. HRT uses a cost allocation approach to charge the localities, which mitigates savings or increased costs that a locality may have.

At this point, I have recommended funding of \$5,200,640 in FY 2013, directing that we consider both reducing and eliminating routes that have limited ridership to reduce our overall costs. I have directed staff to work with HRT in the ensuing weeks prior to final budget adoption to return with a plan for FY 2013. However, it has become very clear that regardless of the efficiencies that we desire and the level of funding we provide, there is no assurance that we will avoid a costly year-end reconciliation expense from HRT for operating cost allocation from the other participating localities.

The final expense recommended in Community Support and Regional Agencies is a Contingency amount of \$30,000. While not specifically designated, this amount would allow for four additional weeks of PORT sheltering activities for the homeless during the winter months. Traditionally, this effort has been coordinated through LINK. Food, shelter, and security are provided to these individuals using facilities owned by LINK partners. Bus transportation is also provided by LINK using its vehicles. In FY 2012 City Council approved funding from the City Council Contingency fund for four additional weeks of PORT sheltering provided by LINK.

Additionally, there were a total of five (5) agencies not funded in the current year that solicited support from the City for \$212,450 in requests. Some of these requests were for the restoration of funds eliminated in prior operating budgets and some were new grant requests. I am not recommending any new initiatives in such a challenging budget year that would require reducing funding to existing agencies that continue to provide important ancillary services to our citizens. In addition, I am suspending the program that allows for eligible agencies to request reimbursement for Real Estate Tax or Personal Property Tax payments

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made in the preceding fiscal year. I cannot endorse further eroding our revenue base in the current budgetary environment.

RATES AND FEE INCREASES

A balanced budget has only been able to be achieved with some proposed tax and fee increases. While many localities feel that they have no other option than to raise the Real Estate Tax rate, I feel that by maximizing the stronger performing local revenues, we will be able to avoid an increase in that rate for FY 2013. To recap, I am proposing raising the Meals Tax by 1%, the Cigarette Tax by ten (10) cents per pack of 20 cigarettes, and the Personal Property Tax rate by twenty-five (25) cents. Combined, the new revenue generated will be \$5.7 million. With the lower assessment on real estate property, most homeowners will be paying less net taxes in FY 2013 than in the current fiscal year.

For the User Fund fees, there are increases that are unfortunately unavoidable. In the Wastewater and Stormwater Management Funds, these rate increases are driven primarily by the impact of the Consent Order and other environmental regulations. As detailed in the recent presentation to City Council, our requirement to reduce or eliminate sanitary sewer overflows and reduce the flow of pollutants into our waterways will require prompt studies and investment in system improvements. This is a long term and very costly proposition. To address these needs, I am recommending that both rates be increased: on Wastewater from a combined rate of \$2.53 per hundred cubic feet used to \$2.79 and on Stormwater from \$5.45 per ERU monthly to \$7.45 monthly. In the Solid Waste Fund, the \$0.10 per-week increase on the container rate is necessary to cover the cost of operations. These proposed rate changes are shown below:

SOLID WASTE USER FEE	FY 2012		FY 2013	
	Container Size	Per Week (each)	Container Size	Per Week (each)
	Medium	\$4.52	Medium	\$4.60
	Standard	\$5.65	Standard	\$5.75
STORMWATER MANAGEMENT FEE	\$5.45/ERU		\$7.45/ERU	
SEWER USER FEE - COMBINED RATE				
Rate/100 cubic feet	\$2.53		\$2.79	

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I am also recommending that the Water Rates be increased in FY 2013. Waterworks has continued to reduce operating expenses where possible, but these savings do not make up for declining water consumption. The proposed rates are shown below:

Water Consumption Rates per one hundred cubic feet (HCF):

<b>Fee</b>	<b><u>FY 2012</u></b>	<b><u>FY 2013</u></b>
Single-Family Residential Bimonthly		
R1 Lifeline (0 to 6 HCF)	\$2.89/HCF	\$3.14/HCF
R2 Normal Use (Greater than 6 to 50 HCF)	\$3.32/HCF	\$3.60/HCF
R3 Conservation Tier (Greater than 50 HCF)	\$6.64/HCF	\$7.20/HCF
Industrial Monthly		
I1 Tier 1 (0 to 40,000 HCF)	\$3.32/HCF	\$3.60/HCF
I2 Tier 2 (Greater than 40,000 HCF)	\$2.89/HCF	\$3.14/HCF
General (All Other Consumption)		
G - All other usage	\$3.32/HCF	\$3.60/HCF

<b>Meter Size (Inches)</b>	<b><u>FY 2012</u></b>		<b><u>FY 2013</u></b>	
	<b>Monthly Charge</b>	<b>Bi-Monthly Charge</b>	<b>Monthly Charge</b>	<b>Bi-Monthly Charge</b>
5/8	\$6.00	\$7.50	\$6.60	\$8.70
3/4	\$7.20	\$9.40	\$7.90	\$10.90
1	\$9.70	\$13.40	\$10.60	\$15.50

The user fee increases are largely unavoidable, as they are driven primarily by regulatory requirements. If I were not confident that every effort had been made to reduce costs where possible, increase operational efficiencies, use reserves of the funds as appropriate, I would not have recommended these increases. Below is a chart that shows the potential impact on an average homeowner of all the rate and fee changes that this recommended budget contains. As you will see, with the average decline in real estate assessments, the typical homeowner will actually have an overall lower tax burden than in the current fiscal year, while retaining the current service level that they enjoy, as well as having the expanded services of the Denbigh Community Center and the 311 Customer Contact Center.

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This table is based on the values associated with a household of four, two cars, and an average 2012 real assessment of \$200,000.

	FY 2013 Potential Impact
Real Estate Tax	-\$166.36
Personal Property Tax (Auto)	+\$6.25
Stormwater Fee	+\$24.00
Solid Waste Fee	+\$5.20
Sewer User Fee	+\$23.40
Water Rates	+\$27.96
<b>NET IMPACT ON TYPICAL HOUSEHOLD</b>	<b>-\$79.55</b>

### MOVING FORWARD

Looking beyond the next fiscal year, there are many considerations and programs that warrant a more extended review to ascertain trends and opportunities for cost savings.

Over the next several years, the economic conditions that set the parameters of the City's fiscal environment are likely to be characterized by slow growth. Real estate values should stabilize, and cuts from the State should level off as the Commonwealth's income-tax-driven budget gradually improves. However, dynamic revenue increases from either real estate or State programs are unlikely. Local taxes should grow modestly, but any increase to fuel prices will have a dampening effect on any local recovery that may exceed national averages. While we all wish we could know for sure the future path the economy will take, current trends suggest that this community will largely be prepared to manage its fiscal challenges, meet its commitments, and take advantage of opportunities that arise.

Moving forward, we must maintain focus on our Strategic initiatives and use them as a guide in making judgments about where to invest our limited resources. In the FY 2013 recommended budget, there are operating costs for initiatives in such diverse areas as the new Denbigh Community Center (related to the Upper Warwick Boulevard Corridor Initiative), a new 311 Customer Contact Center (in support of our Customer Service strategy), and shared services initiatives and work force

development program expansion (building our Community Development capacity) just to name a few.

While the official scope of our Operational Efficiency Committee is complete, the work is not done. There were many suggestions from the Committee that require us to concentrate on the potential for future efficiencies in our operating budget. Some of these are additional shared services with Hampton, including radio communications services, consolidation of our warehouse functions, and the review of staffing of Boards and Commissions, as well as the necessity of those same entities. One of the most exciting elements resulting by the Efficiency Committee is the endorsement of the Balanced Scorecard process for measuring performance of City functions. We have taken the beginning steps of this process by training employees in the general concept, developing a prototype Balanced Scorecard, asking departments to use the concept to support development of budget requests, and committing City funds to the next steps of this developmental process. As the Balanced Scorecard will be the fundamental tool we use in creating our annual operating budget and capital improvement plan in future years, we will be committing more of our time, effort, and talents to developing this for our City.

## CONCLUSION

In summary, I have submitted a balanced budget with a minimum of service delivery reductions. The Recommended Budget includes tax and fee increases necessary to achieve the level of City operations desired by our citizens and/or mandated by higher levels of government. This budget achieves the objectives of funding our pension and health care obligations, increasing funding to Schools, funds limited new initiatives in the midst of declining revenue, and provides a small salary adjustment for our valued employees. These are significant accomplishments, given all of the constraints that we face. I chose to recommend difficult but necessary sustainable reductions that were moderated in impact by adjusting our known revenue streams in a slowly recovering economy.

As challenging as this budget was to develop, it maintains the City's fiscal integrity. In conjunction with our highly successful bond refunding transaction, earlier this month the City's strong long-term ratings were affirmed by both Standard & Poor's Ratings Services (AA) and Moody's

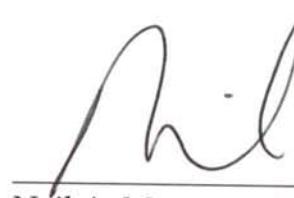
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Investors Service (Aa1). Effective financial management and prudent financial policies and practices were identified as strengths of the City.

My staff at all levels and I have worked very hard to develop a budget that is responsive to the current economic climate, while at the same time maintains essential core services for our citizens. I particularly want to acknowledge the staff of the Department of Budget and Evaluation for their diligence during this process.

While this memorandum highlights the budget in general, specific areas of interest will be detailed in Budget Position Papers, which will be delivered to you by April 2. All budget documents will be made available to the public on the City's web site and in all Newport News public libraries. We are also in the process of producing a NNTV program that will be the second in the series on the budget and will discuss much of the information in this memorandum. It will be available to the public in the immediate future.

I will work with you and the citizens of Newport News to finalize this budget through upcoming work sessions and public hearings. I thank you for your support.



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Neil A. Morgan

NAM:LJC